Chapter 24

The Role of the Co-operative Housing Sector in Creating Affordable Housing

MARK GOLDBLATT

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Edited by J. David Hulchanski and Michael Shapcott

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The co-operative housing sector can help moderate- and low-income households meet their need for affordable housing in a number of ways. The two most important are (a) the unique tenure form of non-profit co-operative housing that gives residents direct control of their housing based on the formula of "one member, one vote," and (b) the co-op housing sector's capacity, drawing on 30 years of experience, to work with government on program design and to deliver programs efficiently.

Beginnings

The non-profit co-operative housing form of tenure was introduced in Canada when Campus Co-op in Toronto bought its first house in 1936. The Co-op was formed to serve the housing needs of University of Toronto students. Several more university student co-ops followed.

In 1965, the first family non-profit co-op housing project, Willow Park, opened in Winnipeg. Three years later, the Co-operative Union of Canada, the Canadian Labour Congress, and the United Church of Canada founded the Co-operative Housing Foundation (now Federation) of Canada. Seven co-op housing pilots across the country were financed in 1971 and 1972 by Canada Mortgage and Housing Corporation (CMHC). These initiatives were followed by an important breakthrough in June 1973, when the *National Housing Act* was amended to include a specific provision for financing non-profit housing co-ops.

Operating Principles

From these modest beginnings, Canada's non-profit co-op housing sector has grown to more than 91,000 units owned by 2,185 housing co-operatives, and housing about 250,000 people.

The unique contribution of co-operative housing, in the context of rental housing in Canada, is that the projects are controlled by the residents on the principle of one member, one vote. Like other types of social housing – government-owned and benevolent non-profits (often referred to as private non-profits) – co-ops operate as near as possible at cost in perpetuity. The properties are not sold and resold, and therefore capital gains are not passed along in higher rents. Capital appreciation remains with the property. But the distinguishing characteristic of co-op housing is that residents are directly in control through their elected boards of directors, whereas with the other two forms of social housing residents live as tenants of the owner under a landlord-tenant relationship.

Another essential characteristic of housing co-ops is that the residents include households at different income levels. Traditional public housing, launched by the then-innovative Regent Park project in Toronto, was designed to serve the poor exclusively. As experience has shown, some public housing projects have come to be seen as low-income ghettos, often dysfunctional as communities and held in low esteem by both residents and neighbours. This perception led to a shift in social housing policy in Canada in the early 1970s to support mixed-income housing.

The non-profit co-op housing sector has always aimed to create mixed-income communities that are open to all, ideally a 50/50 split between those who can pay the full break-even rent and moderate and lower-income households in need of a subsidy. As government program financing requirements have changed, however, the low-income component of co-op housing projects has come to range from a low of 15% to 100% in different co-ops. Although income mixing is rarely emphasized in current social housing policy discussions, the co-op housing sector remains convinced that mixing incomes has distinct benefits. The shortage of affordable housing is not confined to the lowest-income households. Many Canadians do not necessarily need rent-geared-to-income assistance, yet cannot find affordable accommodation in the larger cities.

The co-op housing sector believes that members should be direct stakeholders. Their willingness to get involved in the business of run-

ning of their co-op affects the cost and quality of their living environment. Two major evaluations of co-op housing by CMHC (in 1983 and 1992) have clearly demonstrated that non-profit co-ops have the lowest operating costs compared to the other two forms of social housing. This has important financial implications as governments search for the most cost-effective way to subsidize low-income households over the long run. If co-op housing rents fall substantially below market rents, especially after the mortgage is paid off, there may be the capacity to internally subsidize low-income members who have no access to government subsidies.

Social Cohesion

As Canada becomes an increasingly diverse society, we face the challenge of building sustainable communities from people of diverse ethnic and cultural backgrounds. The resident-controlled structure of housing co-ops ensures that residents get to know their neighbours and work together to make the best possible living environment. Housing policy has a vital role to play in supporting Canada's social fabric and housing co-ops have demonstrated that they can contribute to building cohesive communities.

As with other forms of social housing, the co-op housing sector seeks to house a mix of household types, including people of every age group, one-person households, and families of every size. A disproportionate number of single-parent households live in co-op housing because this housing offers a supportive community as well as affordable housing. There are also a significant number of seniors-only housing co-ops. Many housing co-ops are built with barrier-free access design principles that allow people with physical challenges to live independently.

Proposals and Observations

The co-op housing sector has extensive experience working with government to design housing programs, some of which are unique to the co-op housing sector, while others are available to all forms of social housing. These include three unilateral federal programs over a 21-year period (1970–91) and several unilateral provincial programs. In some periods, federal-provincial cost-shared programs were available.

The programs directed at housing co-ops are designed to give households that do not receive rent-geared-to-income assistance a financial

incentive to manage their projects efficiently and control operating costs – in short, to create a situation similar to private homeownership, where each dollar saved in operations is a dollar less that that residents have to pay.

In 2003 the co-op housing sector put forward program proposals to both the federal and Ontario governments which, if accepted, would create a co-op stream within the larger federal-provincial affordable housing agreement. These proposals attempt to satisfy government concerns while adhering to the fundamental characteristics of non-profit co-op housing. They are worth reviewing, as they provide a window into the co-op housing sector's approach to housing policy, and reflect the sector's past experience with program design.

The current federal-provincial affordable housing program is based on the premise of 50/50 cost sharing. Although there is no inherent problem with this approach, holes in the housing accord on which the current federal-provincial program is based have allowed the provinces to escape putting up true matching dollars. This problem was particularly acute in Ontario under the Conservative government (1995–2003) but will, it is hoped, be resolved with the Liberal provincial government that was elected in 2003.

Current program design is based on up-front capital grants to make projects financially feasible. The capital grant approach is favoured by governments today over a commitment to ongoing operating subsidies, which were part of the program design under earlier programs. Grants reduce mortgage financing requirements, and lower the project carrying costs to levels that can be financed by a rental revenue stream at market levels. Initial project rents (that is, rents before the introduction of rent supplement assistance) should be established at the low end of the local market. This is to ensure the viability of projects that may, in the future, experience operating difficulties and as a result have to increase operating income to cover, for example, higher-than-expected operating costs. The capital grant mechanism, a feature of earlier co-op housing programs, works well, simplifies the nature of government involvement, and creates equity in the project, giving more security to lenders.

Municipalities are often interested in and able to contribute to project financing by waiving development charges or building fees. In some cases they may make land available to the project. Municipalities should be rewarded for such contributions by making sure that funds budgeted for the municipality by higher levels of government are kept constant and that municipal contributions do not replace funds that would otherwise flow from the federal-provincial program.

Social housing groups need up-front assistance to get their projects to the point at which they are ready for financing. These costs include architectural design fees, the cost of rezoning if needed, legal fees, and remuneration for the social housing developers that put the projects together. In the past, CMHC met this need by providing financing through its Project Development Fund program. Such financing should be a part of all future programs. Social housing groups do not have access to the high-risk funds that private developers often have.

Provinces should provide rent-geared-to-income (RGI) subsidies to enable moderate-and low-income households to live in the projects without paying more than 30% of their household income on rent. Having the provinces remain responsible for the RGI component is consistent with current federal-provincial financial relationships. The co-op housing sector aims to ensure RGI assistance for 50% of the households living in co-op housing projects, with the balance of households coming from people who can afford the break-even rent.

A unique feature of the co-op housing sector's program proposal is that every co-op would be required to pay an enrolment fee towards a Stabilization Fund. The existing Co-op Housing Stabilization Fund was created as part of the 1985–91 Federal Co-operative Housing Program, which was based on index-linked mortgages. This new mortgage instrument, used for the first time in Canada to finance housing, was designed to achieve lower interest rates by protecting lenders from the risk of inflation. At that time, CMHC was anxious that this new mortgage instrument might result in more claims on its Mortgage Insurance Fund (MIF) if co-ops financed under the program failed. The result was a mutual agreement between CMHC and the Co-operative Housing Federation of Canada to create a Stabilization Fund that would intervene to support housing co-ops experiencing serious financial problems, thus preventing claims on the MIF.

This Stabilization Fund has been a success story in turning around projects in difficulty that might otherwise have made claims on the MIF. Since continuing government operating assistance will not be a feature of new social housing programs, CHF Canada aims to mitigate the risk by expanding the current Stabilization Fund as part of future co-op housing programs.

In the past, government social housing program financing was available for the acquisition and rehabilitation of existing rental housing, as well as for new construction. As Canada's existing rental housing stock ages, the purchase and rehabilitation of an older property by a social housing group can both renew the housing and capture it as affordable

rental housing in perpetuity. A program that assists in the purchase and rehabilitation of existing rental housing is an excellent alternative to building new social housing in areas experiencing high vacancy rates.

The co-op housing sector also proposes the use of flexible mortgages with long amortization periods. This is to reduce monthly mortgage payments and up-front capital grant requirements. The option of extending the amortization period provides a safety valve in the years to come, should projects need to reduce project operating costs in an economic downturn.

Whenever existing housing co-operatives have the potential for infill (the addition of more housing through the densification of their properties), redevelopment will be strongly encouraged. Adding stock to existing housing co-operatives, where feasible, would take advantage of a land contribution, as well as the base of support provided by an existing, experienced co-operative housing community. This approach has the added benefit of allowing established co-operatives to respond to the shifting demographics of their members through the addition of housing suited to "empty-nester" households, thereby freeing up family units for incoming households that need them.

One feature of the current federal-provincial affordable housing program is that it is open to private developers. In the view of the co-op housing sector, this is not sound public policy. When housing subsidies are limited, the government must take into account the fact that the social housing sector provides affordable rental housing in perpetuity. Even if private developers are enticed into participating by the subsidies, they will do so only if rents are controlled for a fixed period of time.

A further issue is that of public-private partnerships, a prominent trend in recent years. While there is nothing essentially wrong with the idea of a public-private partnership, the private side of the equation should bring something to the transaction that is not otherwise available in the open market. For example, if a private developer sells a piece of land it owns to a social housing group at market value, there is no real value added. If a lender provides a mortgage secured 100% by mortgage insurance, there is no special contribution, since almost all lenders provide financing on this basis.

Program Delivery

Once programs are designed, they must be delivered. Over the years the co-op housing sector has built up a network of resource groups that

specialize in the development of co-op housing. These resource groups are not subsidized; rather, they are financed by consulting fees that are included in each project's capital costs. The existence of this network means that programs can move from the design phase to implementation very efficiently.

As with all housing after the development phase, co-op housing must be managed and maintained. The co-op housing sector has created its own system of ongoing management support. Since co-op housing is managed by a volunteer board of directors and committees, the members of which usually do not have previous housing management experience, the co-op housing sector has developed its own system of training. The system includes short courses, manuals in plain language, and a program to train trainers.

The co-op housing sector also has national and regional federations funded by members' dues. Being self-financed, this infrastructure does not depend on government support, which could be withdrawn at any point. If an individual co-op finds itself in operating difficulty, the necessary expertise exists to help it deal with its problems. In addition to this training and support capacity, co-op housing federations offer group purchasing and insurance programs that give individual co-ops the benefits of large portfolios while remaining self-managed entities.

Conclusion

The non-profit co-op housing sector has no magic solutions when it comes to providing affordable rental housing. True, housing co-ops offer at-cost rental housing in perpetuity that in most markets should become more affordable as time goes on. However, each housing co-op must break even financially. For households that cannot afford the break-even rents in co-op housing projects, the only solution is government subsidies.

Although the public must not be misled into thinking that there is some easy solution, ongoing incremental growth in the social housing sector should be able to create a permanent stock of affordable rental housing and the potential for a long-term solution.

The fact that the federal government and most provincial governments withdrew from financing new co-op housing over the last decade was not because of a failure of policy but a lack of political will to maintain spending on an alternative that has been a success story. The co-op housing sector welcomes the fact that in the early years of the new mil-

lennium, the federal government and most provinces are getting back into the social housing business.

The non-profit co-op housing sector is part of the answer to meeting the needs of renters, especially low- and moderate-income households. It has the experience to develop and deliver government programs. It has the infrastructure to support the management of its affordable housing over the long run. But its most significant contribution is its unique tenure form based on resident control, and through that control, the capacity to meet the social as well as financial needs of its members. Co-op housing offers the powerful combination of non-profit rental housing in perpetuity and a force for social cohesion.

Mark Goldblatt is senior consultant with the Co-operative Housing Federation of Canada.